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American reliance on government at all-time high

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The so-called "Great Recession" has left Americans depending on the government dole like never before.

Without record levels of welfare, unemployment and other government benefits as well as tax cuts last year, the income of U.S. households would have plunged by an astonishing $723 billion — more than four times the record $167 billion drop reported last month by the Commerce Department.

Moreover, for the first time since the Great Depression, Americans took more aid from the government than they paid in taxes.

The figures show the devastating results of the massive job losses last year and indicate that the economic recovery that began last summer is tenuous and has a long way to go before many Americans resume life as normal, analysts said.

Economic growth typically depends on consumer spending, which is fed by wages, rents, interest and other forms of income. But the tentative revival of consumer spending in the second half of last year appears to have been fed largely by an extraordinary flood of government spending, as growth in other kinds of income has disappeared.

"Governmental support was critical in keeping the economy, particularly consumer spending, from completely collapsing during the crisis," said Harm Bandholz, an economist at Unicredit Markets. He said he is concerned that so much of the economic rebound is a result of government spending rather than a revival of private income and jobs. That situation is unsustainable, he said, because the government has had to borrow massively to prop up the economy and cannot continue that binge for long.

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While wages and other job-related income fell by a record $206 billion last year to $7.84 trillion, transfer payments from the government such as unemployment checks and Social Security burgeoned by $231 billion to $2.1 trillion. Meanwhile, the amount of taxes that individual Americans paid plummeted by $325 billion to $2.1 trillion as a result of middle-class tax cuts and because nearly 6 million people were thrown out of work and are no longer paying payroll taxes.

Commerce economists said last year's unprecedented drop of $256 billion in private wages — the mainstay of consumers in ordinary times — was particularly dramatic, and was more than 40 times larger than the drop in wages during the entire 2001 recession.

Equally dramatic, a measure of income that closely tracks the ravages of the recession also plummeted by an unprecedented $384 billion. That measure excludes transfer payments and adjusts for inflation. It has stabilized at $9.1 trillion since the middle of last year, in a sign that the worst of the job and income losses are over.

While most of the government benefits — including Social Security, welfare, Medicaid, food stamps and regular unemployment benefits — are sent automatically to those who qualify, Congress is debating an extension of some benefits enacted as part of the stimulus package last year. Those include jobless benefits and health insurance subsidies for the unemployed.

The Senate on Friday failed to pass an extension of jobless benefits for up to 99 weeks for workers in states with high unemployment rates. Long-term jobless benefits expired Sunday, leaving many Americans dependent on those payments in limbo. With more than 8 million workers laid off during the recession, unemployment benefits have quadrupled from $34 billion in January 2008 to $124 billion at the end of last year.

"Millions of Americans are now relying on unemployment benefits as their only source of income other than food stamps," said Ross Eisenbrey, vice president of the Economic Policy Institute. "They are unable to find work because there are more than six job seekers for every opening. There is literally nothing that most of these workers can do to get a job today. Unemployment benefits are often the only way they can make ends meet for their families and keep a roof over their heads."

The proposed extension in long-term jobless aid was held up Friday by Sen. Jim Bunning, Kentucky Republican, who objected that it added $10 billion to the budget deficit. As a result of record U.S. government borrowing, total debt in the United States has soared to an all-time high of 370 percent of yearly economic output, far exceeding its peak of 300 percent during the Great Depression.

"If we cant find $10 billion somewhere for a bill that everybody in this body supports, we will never pay for anything," Mr. Bunning said.

Democrats vowed to renew the unemployment aid this week to minimize disruption for more than 1 million jobless people who would begin to exhaust their extended benefits on Monday.

"The simple fact of the matter is that this is an emergency situation and should be treated as such," said Senate Majority Whip Richard J. Durbin, Illinois Democrat. "The most vulnerable families in America are going to suffer because of this political decision by one senator. … We will be back, we will try to get this done. And to those families: Hang in there."

The massive shift into dependence on the government, while essential in promoting an economic revival last year, has postponed a reckoning for many consumers who went too far into debt to maintain their lifestyles during the boom years, Mr. Bandholz said.

While the government was lavishing aid, banks were cutting credit to consumers by a record $250 billion, nearly as much as the amount consumers gained from government transfer payments.

"This shift only postpones a solution to the problem" by substituting government debt for consumer debt, Mr. Bandholz said. "These elevated debt loads will at least result in sluggish growth rates for the time being — and if the problem is not tackled with determination, it might very well lead to another crisis."

Some economists say the big shift toward dependence on government spending and borrowing is only temporary.

"Sure, temporary government transfers played a role this past year. But that's OK," said Bernard Baumohl, chief global economist at the Economic Outlook Group. He noted that Americans also accumulated a record amount of savings last year as they stowed away funds out of fear of losing their jobs.

The increase in savings now enables many consumers to increase spending, while the 90 percent of workers who still have jobs can spend more because they are accumulating more income from overtime hours, he said.

"It's a combination and interaction of all these forces — not just one — that will promote more future spending by households and keep the economy going later without government aid," he said.

Jobless benefits and other welfare spending for the unemployed will start to decline when job growth returns. Many economists predict that employment will increase this spring or summer in the next stage of the recovery. Because of bleak job prospects during the recession, some people were forced to go more permanently on the government dole.

In particular, many workers who were nearing retirement age and got laid off started drawing Social Security benefits. The number of retirees taking Social Security at age 62 grew by a record 19 percent in the past year, helping to push up Social Security outlays by $100 billion. Analysts expect those spending levels to stay high and continue to increase as more baby boomers retire.